

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 FEA-02 AEC-11 AID-20 CEA-02 CIEP-02 COME-00

EB-11 FPC-01 INT-08 OMB-01 SAM-01 SCI-06 STR-08

TRSE-00 NEA-14 IO-14 FRB-02 XMB-07 SAJ-01 DRC-01 /212 W

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R 191037Z JUN 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 3281

INFO AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

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E.O. 11652: N/A

TAGS: ENRG, GW

SUBJECT: ECG: GERMAN WORKING PAPER ON A NEW
INTERNATIONAL INSTITUTION

THE EMBASSY RECEIVED TODAY A VERBAL NOTE DATED
JUNE 12 FROM THE FOREIGN MINISTRY CONTAINING THE TEXT
OF AN FRG WORKING PAPER ON A NEW INTERNATIONAL
INSTITUTION. THERE FOLLOWS THE TEXT OF THIS PAPER.
BEGIN QUOTE

10TH JUNE, 1974

WORKING PAPER ON POINT 14. OF ECG/8/ FINAL
SUBMITTED BY THE GERMAN DELEGATION

THE ATTACHED PAPER TRIES TO SUM UP THE FIRST
DISCUSSION ON THE DESIRABILITY OF A NEW INSTITUTION
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ACCORDING TO THE TERMS OF REFERENCE ECG/8/FINAL FROM

14 MARCH 1974.

IN ORDER TO FACILITATE THE NEXT DISCUSSION ON 25 JUNE,
AN ATTEMPT HAS BEEN MADE TO CLASSIFY THE REMARKS MADE
ON 2/3 MAY INTO TWO CATEGORIES:

- A VERY TENTATIVE "IT IS GENERALLY AGREED"
- QUESTIONS AND DOUBTS.

IT IS PROPOSED THAT ON 25 JUNE WE GO THROUGH THIS
PAPER BUT SPEND MOST OF OUR TIME ON THOSE SUBJECTS
THAT HAVE NOT YET RECEIVED MUCH THINKING,
ABOVE ALL: MEMBERSHIP, EQUITY DISTRIBUTION, VOTING.
IN THIS CONTEXT REFERENCE IS MADE TO THE TWO GERMAN
PAPERS WHICH YOU HAD RECEIVED IN APRIL.

A. DESIRABILITY OF A NEW INTERNATIONAL INSTITUTION

IT IS GENERALLY AGREED THAT

1. - IN PRESENT CIRCUMSTANCES AND ON PURELY ECONOMIC
GROUNDS, THERE IS NO PARTICULAR NEED FOR CONSIDERING
A NEW INSTITUTION
2. - FOR POLITICAL REASONS AND IN VIEW OF A CONFERENCE
OF OIL PRODUCING (OPC) AND OIL CONSUMING COUNTRIES
(OCC), THE IMMEDIATE ELABORATION OF THE OUTLINES OF A
NEW INSTITUTION IS THOUGHT USEFUL.

THUS, A "CONTINGENCY PLAN" SHALL BE PREPARED IN ORDER
TO BE ABLE TO OFFER SOMETHING TO OPC BEGIN UNDERLINE
IN CASE END UNDERLINE THEY PUT FORWARD SPECIFIC
REQUESTS IN THE FIELD OF INVESTMENT. (OCC WILL NOT,
HOWEVER, OFFER A NEW INSTITUTION WITHOUT PRIOR DEMAND
FROM OPC.)

THERE IS ALSO WIDESPREAD FEELING THAT

3. IN THE MEDIUM AND LONGER RUN, CONSIDERATION OF A
NEW INSTITUTION MIGHT BE DESIRABLE, EVEN ON PURELY
ECONOMIC GROUNDS.
(IN THE MEANTIME, THIS FEELING MIGHT HAVE BECOME MORE
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DISTINCT IN VIEW OF RISING DOUBTS AS TO THE ABILITY OF
PRIVATE BANKING TO PROVIDE SUFFICIENT INTERMEDIATION
AND TO HANDLE VERY LARGE AMOUNTS OF MONEY INDIVIDUALLY.)

- B. OBJECTIVES OF A NEW INSTITUTION
(OR: BEGIN UNDERLINE WHY END UNDERLINE A NEW
INSTITUTION MIGHT BE CONSIDERED DESIRABLE)

IT IS GENERALLY AGREED, THAT A NEW INSTITUTION MAY

FROM THE POINT OF VIEW OF OPC

1. - REDUCE THE POLITICAL RISK OF THEIR INVESTMENTS
BEING BLOCKED
2. - INCREASE THE KINDS OF ASSETS ALREADY AVAILABLE

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EB-11 FPC-01 INT-08 OMB-01 SAM-01 SCI-06 STR-08

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(AND THEREBY HELP TO SPREAD THE RISKS)

FROM THE POINT OF VIEW OF OCC

3. - REDUCE THE DANGER OF DISORDERLY FINANCIAL AND
FOREIGN EXCHANGE MARKETS

4. - INCREASE THE TRANSPARENCY OF OPCS' INVESTMENTS

FROM THE POINT OF VIEW OF BOTH PARTIES CONCERNED

5. - CONTRIBUTE TO A BETTER MUTUAL UNDERSTANDING OF
BEGIN UNDERLINE COMMON END UNDERLINE INTERESTS

6. - FURTHER THE UNDERSTANDING OF THE GENUINE
INTERESTS OF BEGIN UNDERLINE EACH END UNDERLINE OF THE
PARTIES CONCERNED.

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IN SUM: FURTHER MUTUALITY

TO BE FURTHER DISCUSSED:
HOW STRONGLY DO WE FEEL ABOUT THE FOLLOWING POSSIBLE
OBJECTIVES?

A NEW INSTITUTION WILL/MAY/MIGHT

7. - ENHANCE THE POSSIBILITIES FOR A REDUCTION OF
THE CURRENT OIL PRICE

8. - REDUCE THE DANGER OF RENEWED CUT-BACKS OF OIL
PRODUCTION (PREVENT OIL FROM BEING KEPT IN THE GROUND)

WOULD THE ADVANTAGES MENTIONED ABOVE BE SET OFF BY THE
FOLLOWING DOUBTS?

9. - IS THERE NOT A DANGER OF PAYING THE OIL BILL
TWICE - BY PAYING THE HIGH OIL PRICE AS WELL AS BY
OFFERING INVESTMENT FACILITIES "BETTER THAN NORMAL"
THROUGH A NEW INSTITUTION?

10. - THE DESIRED RELIEF FROM STRAINS ON FINANCIAL
AND FOREIGN EXCHANGE MARKETS MAY TURN OUT TO BE VERY
SMALL IF OPC SHOW LITTLE INTEREST IN INVESTING THEIR
FUNDS WITHOUT THE VEIL OF ANONYMITY.

C. GENERAL TASKS OF A NEW INSTITUTION
(OR: INTERPRETING THE TERMS OF REFERENCE)

ACCORDING TO THE TERMS OF REFERENCE, A NEW
INSTITUTION SHALL

1. - FACILITATE BEGIN UNDERLINE STABLE END UNDERLINE
INVESTMENT BY THE OPC

2. - FACILITATE INVESTMENT BEGIN UNDERLINE ON

COMMERCIAL TERMS END UNDERLINE

3. - FACILITATE INVESTMENT BEGIN UNDERLINE BY THE OPC
END UNDERLINE
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AD 1. IT IS WIDELY AGREED THAT "STABLE" INVESTMENT
MEANS LONG-TERM INVESTMENT FROM A PERIOD OF 4 TO 6
YEARS ONWARDS.
IT IS ALSO AGREED THAT THE INSTITUTION WOULD WORK
ALONG NORMAL BANKING RULES, AND WOULD BE ALLOWED, TO
A CERTAIN EXTENT, TO MAKE SHORT-TERM TRANSACTIONS.

ONE MEMBER FELT THAT "STABLE" INVESTMENT NEED NOT
NECESSARILY MEAN "LONG-TERM" INVESTMENT.

AD 2. IT IS GENERALLY AGREED THAT THE AUTHORIZED
CAPITAL STOCK SHOULD BE DENOMINATED IN SDRS.

IT IS ALSO AGREED THAT THE INSTITUTION SHALL NOT OFFER
ANY KIND OF GUARANTEES (F.I. SDR-DENOMINATION,
INDEXATION) ON THE FUNDS RECEIVED AND LENT.

SOME MEMBERS FEEL, HOWEVER, THAT THE QUESTION OF
GUARANTEES IS ONE THAT SHOULD BE LEFT OPEN FOR
NEGOTIATION. (AFTER ALL, THE IMF-OIL FACILITY IS
EXPECTED TO OPERATE ON SDR DENOMINATION.)

SOME MEMBERS DOUBTED WHETHER A SDR-DENOMINATION WOULD
PROVE SUFFICIENT. OTHER MEMBERS FELT THAT THE

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INSTITUTION WOULD, ANYHOW, SPREAD THE EXCHANGE RISK
BY USING A VARIETY OF CURRENCIES.

AD 3. IT IS GENERALLY AGREED THAT BORROWED FUNDS
SHOULD BEGIN UNDERLINE MAINLY END UNDERLINE COME FROM
OPC. (BEGIN UNDERLINE IF END UNDERLINE DURING
NEGOTIATIONS WITH OPC IT WOULD TURN OUT TO BE OF
INTEREST TO THEM, THE INSTITUTION WOULD BE ALLOWED
TO RAISE FUNDS IN THE EURO-MARKETS AND IN NATIONAL
MARKETS.)

D. STRUCTURE AND MEMBERSHIP

IT IS GENERALLY AGREED THAT

1. - A NEW INSTITUTION WOULD BE AN BEGIN UNDERLINE
OFFICIAL END UNDERLINE BODY WITH MEMBERSHIP OF
GOVERNMENTS
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2. - THE AUTHORIZED CAPITAL STOCK WOULD BE
SUBSCRIBED BY MEMBER-GOVERNMENTS

AD 2. THERE WAS RATHER WIDESPREAD FEELING THAT
MEMBERSHIP AS WELL AS CONTRIBUTION TO THE AUTHORIZED
CAPITAL STOCK SHOULD BE ON A 50:50 BASIS FOR EACH
GROUP, I.E., OPC AND OCC ALIKE. ARGUMENTS IN FAVOUR
OF THIS POSITION:

- THIS PROPORTION WOULD UNDERLINE THE ESSENTIAL
ELEMENT OF THE NEW INSTITUTION: MUTUALITY.

- THIS PROPORTION IS A CLEAR-CUT DISTRIBUTION OF RESPONSIBILITIES AND MANAGEMENT; CONSIDERATIONS OF PRACTICABILITY.

A STRICT 50:50 GROUPING, HOWEVER, POSES PROBLEMS, FOR EXAMPLE:

- THE CLASSIFICATION "OPC" AND "OCC" WILL CHANGE OVER TIME; THERE ARE ALSO "INTERMEDIATE" COUNTRIES.

- EVEN AFTER BEGIN UNDERLINE STARTING END UNDERLINE ON THE ABOVE-MENTIONED 50:50 PROPORTION, THE INSTITUTION WILL NEED RULES FOR THE ACCESS OF NEW MEMBERS; THEREFORE, A MORE PRAGMATIC APPROACH MIGHT BE MORE HELPFUL.

- WILL THE PURPOSE OF THE INSTITUTION BE SUCH AS TO ALLOW FOR MEMBERSHIP OF LDCS, TOO?

- IS THERE A NEED FOR STRICT PROPORTIONS ON EACH SIDE, AT ALL?

THERE WAS WIDESPREAD FEELING THAT VOTING POWERS SHOULD DEPEND ON SUBSCRIPTION OF CAPITAL.

HOWEVER, SOME MEMBERS FEEL THAT VOTING POWERS MIGHT BETTER BE DECIDED UPON ON POLITICAL GROUNDS.

E. LENDING OPERATIONS - KINDS OF ASSETS
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SO FAR THE DISCUSSION COVERED INVESTMENT IN PRIVATE FIRMS ONLY.

IT IS GENERALLY AGREED THAT

- INVESTMENT IN PRIVATE FIRMS SHOULD BE CONFINED TO A FIXED PERCENTAGE AMOUNT OF TOTAL LENDING

- INVESTMENT IN INDIVIDUAL FIRMS SHOULD BE LIMITED TO A FIXED PERCENTAGE AMOUNT OF TOTAL CAPITAL OF THE FIRM

- IF THERE IS INVESTMENT IN PRIVATE FIRMS, SUCH LENDING SHOULD BE DIRECT LENDING FROM THE INSTITUTION TO THE FIRM.

FURTHERMORE, IT SEEMS TO BE AGREED THAT INVESTMENT WILL BE IN ANY KIND OF NORMAL FINANCIAL ASSETS.

END QUOTE
HILLENBRAND

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